Attachment B
NRIC 062014 Ex Parte

Rate-of-Return USF Reform Recommendations to Ensure Fairness for all Rural Consumers

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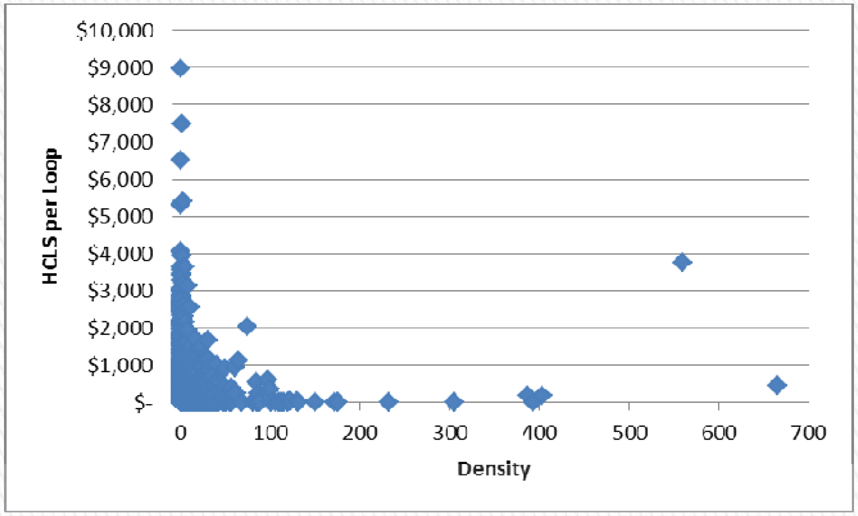
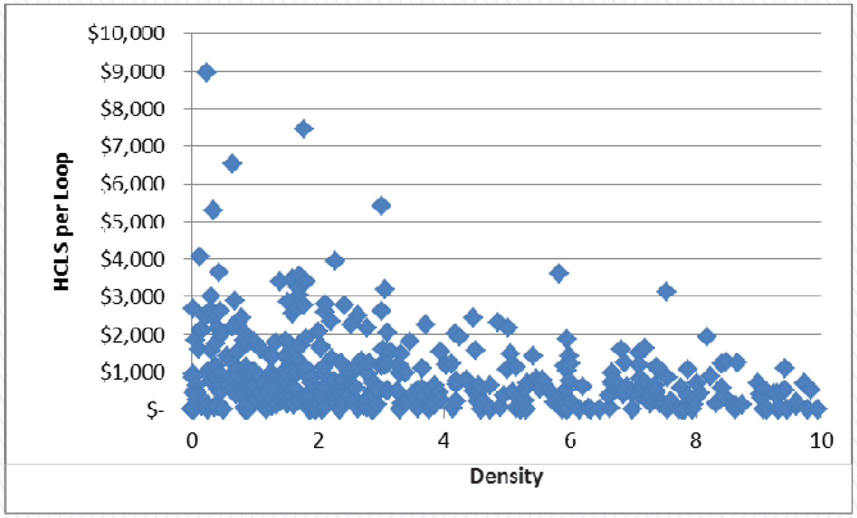
Inequities in Current RoR Support

- Densely populated study areas (density >100 customers/sq. mi.) receive substantial amounts of support:
  - 10 receive $19 M in HCLS
  - 22 companies receive $51 M in ICLS
- Many sparsely populated study areas (density less than1 customer/sq. mi.) receive little or no support:
  - 147 companies receive no HCLS
- Of the 74 QRA capped companies, most were in areas with more than 5 customer per sq. mi.:
  - 64 had densities of greater than 10 customers per sq. mi.
  - 18 had urban areas
- HCLS and ICLS no longer fairly or properly distribute USF

Although HCLS Generally Follows the Cost Curve, Outliers Are a Problem

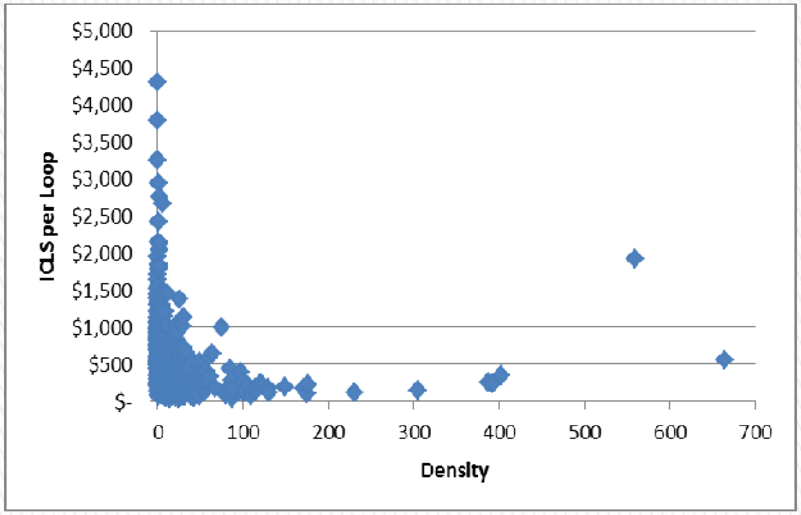


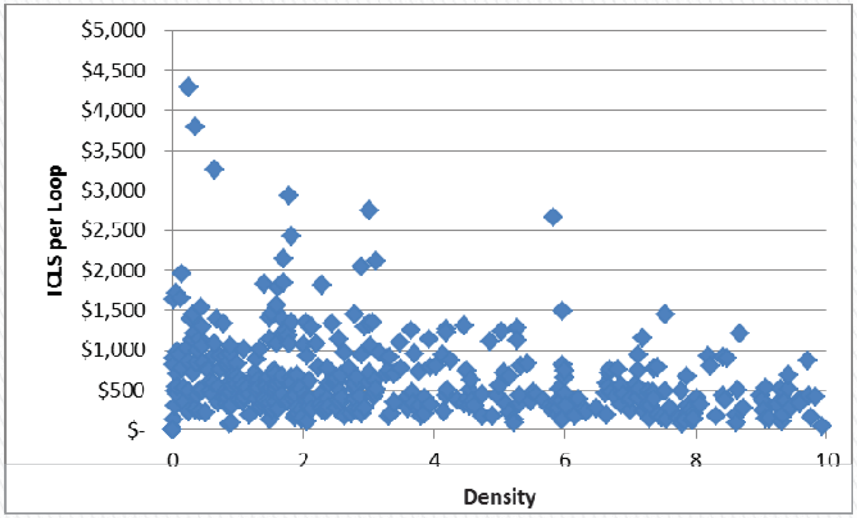


All Rate of Return Companies

Most Sparsely Populated Rate of Return Companies

HCLS Outliers Are Also ICLS Outliers





All Rate of Return Companies

Most Sparsely Populated Rate of Return Companies

Comprehensive Reform is Needed to *Fairly* Allocate the Current RoR Budget and Advance Broadband

- Support should be targeted to the highest-cost areas to serve – density and distance drive costs
- The "race to the top" needs to be addressed
  - Policies should ensure reasonable investment, but disallow "over-recovery"
  - Costs from CAM could be used to establish reasonableness
- A reasonable transition needs to be put in place
- Avoid solutions that perpetuate the status quo or cause a company's support to "whipsaw"

Policy Grounded in the Statute Should Drive RoR Reforms

- Customers in extremely rural areas have a right under the law to reasonably comparable voice and broadband services
  - The FCC should minimize the number of customers relegated to alternate technologies
  - Elimination of support in extremely high cost areas will run the risk of losing voice and broadband services
- The FCC should adopt a policy of “no back-sliding”
  - No customer already served with terrestrial broadband or voice should lose that service
  - If broadband has been deployed in an area, RoR-focused CAF rather than RAF should continue to be available

Support Distribution Mechanisms Should be Differentiated for RoR CAF

- RoR carriers have a far greater portion of high-cost service areas and those areas tend to be more rural
  - A RoR ATT must be set high enough to not strand existing broadband investment and ensure that customers living in extremely rural areas served by RoR carriers do not run the risk of losing such service
- RoR carriers have made investments in their rural areas, while PC carriers have not
  - The potential for "over-recovery" exists as many have already recovered the investment
- The challenge process should be streamlined to reduce burdens on all parties
- If implemented, RoR CAM should reflect RoR cost characteristics
  - RoR carriers do not benefit from the "averaging" inherent in the model application to large companies
- Ongoing funding is essential for most rural areas
- Therefore, differences between price cap and RoR carriers must be considered

PC CAM Must be Modified to Reflect RoR Realities, If Implemented

- The RoR ATT should be set to use the entire RoR budget
- Earnings considerations may be appropriate to limit “over-funding” or modify the CAM to address pre-existing investment
- Target RoR model funding to out-of-town areas as a proxy for identifying non-competitive areas
  - There are a variety of ways this can be accomplished
  - Eliminates the NBM reporting vagaries and cumbersome challenges
- RoR data and maps must be correct to ensure accurate and reasonable results

RoR Carriers Require More Precision in CAM than Price Cap Carriers

- CAM 4.1.1 utilizes a number of broad inputs that produce results that can be averaged across the operations of a PC carrier
  - Company size variable
  - Density variable
- Most CAM inputs are state-level or higher e.g. plant mix
- Diversity of RoR carriers requires more granularity
- Examples of where additional precision is required for RoR carriers
  - CAPEX inputs
    - Test/modify labor, material and engineering inputs for various subsets of RoR companies
    - Test/modify "breakpoints" for size/density of RoR companies
  - OPEX inputs
    - Test company size relationships
    - Reflect inputs other than CAPEX which drive operating expenses